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President: Mr. PITTALUGA FONSECA (Uruguay)

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The meeting was called to order at 10.10 a.m.

INTERNATIONAL CENTRE FOR SCIENCE AND HIGH TECHNOLOGY (continued) (IDB.19/7)

1. **Mr. MARUNO** (Managing Director, Investment Promotion and Institutional Capacity-Building Division), introducing the agenda item, said that, following an exchange of letters between the Director-General of UNIDO and the Director-General of UNESCO, a counterpart had been appointed by UNESCO to deal with matters relating to the International Centre for Science and High Technology (ICS). A meeting had been convened by the Italian authorities on 8 May 1998 to discuss the future ICS programme. Subsequently, on 11 May 1998, the Director-General of UNIDO had written to the Italian authorities stating his firm intention of reaching amicable agreement on matters relating to the Centre.

2. **Mr. MANNO** (Italy) said that the Director-General, since taking office, had been cooperating with the Italian authorities in a constructive and friendly spirit to implement General Conference resolution GC.7/Res.12. Positive results could be expected from the collaboration between UNIDO and UNESCO, and he was grateful to UNESCO for its constructive approach. Italy was working with both agencies to facilitate the transition and to ensure the continuity of ongoing ICS activities for the benefit of developing countries. In December 1997 the Steering Committee of ICS had approved the work programme and the budget for the current year, and the future pattern of development had been defined at the trilateral meeting held on 8 May 1998 between the Government of Italy, UNIDO and UNESCO. Other meetings would take place shortly to define the details of the transitional phase. He assured members of the Board that the change in the institutional status of ICS would not have any negative repercussions on its services to its present and potential customers, in either quantitative or qualitative terms.

3. **Mr. IACCARINO** (United Nations Educational, Scientific and Cultural Organization) explained that, as Assistant Director-General for Natural Sciences, he had been designated to act as the focal point in UNESCO for ICS matters. The general mandate of ICS was to focus on environmentally compatible development, based on sound science and high technologies. The activities of ICS had therefore been developed in the following areas: pure and applied chemistry; earth, environmental and marine sciences and technologies; high technology and new materials. The Directors-General of UNIDO and of UNESCO had been informed in February and March 1997 of the Italian Government's wish to change the status of ICS and to place it under the aegis of UNESCO. The purpose of so doing was to create a unified hub of scientific activity, encompassing the International Centre for Theoretical Physics and the Third World Academy of

Science based in Trieste, as well as the UNESCO office in Venice, which consisted of the Regional Office for Science and Technology for Europe and the Liaison Bureau for the Safeguarding of Venice, all of which already worked under the auspices of UNESCO. In the view of the Italian Government, bringing all those institutions under the umbrella of UNESCO would facilitate the integration of their scientific training and research activities in the interest of developing countries. The Executive Board of UNESCO had been informed of the development at its 152nd session. At its 154th session, the Board had been informed of the decisions of the Board and of UNIDO's General Conference in that respect. The Executive Board had invited UNESCO's Director-General to continue negotiations with the Government of Italy and with UNIDO, and to report to it at its 155th session in October 1998.

4. At the tripartite meeting held in 8 May 1998 in Rome, the substantive and legal aspects of the transfer of ICS from UNIDO to UNESCO had been discussed. It had been decided that the Legal Office of the Italian Ministry of Foreign Affairs would shortly submit a draft trilateral agreement on the transfer to UNIDO and UNESCO. A second meeting on the subject would be convened in early June.

5. UNESCO was committed to the strengthening of cooperation among United Nations organizations, and especially between itself and UNIDO in relation to ICS. The enhanced future cooperation would be in line with the existing agreements between UNESCO and UNIDO.

ANNUAL REPORT OF THE DIRECTOR-GENERAL ON THE ACTIVITIES OF THE ORGANIZATION IN 1997 (continued) (IDB.19/10 and Add.1 and 2; IDB.19/CRP.7)

FIELD REPRESENTATION (continued) (IDB.19/11; IDB.19/CRP.8)

PERSONNEL MATTERS, INCLUDING COMPOSITION OF THE SECRETARIAT (continued) (IDB.19/9; IDB.19/CRP.1)

6. **The PRESIDENT** said that, under item 13 ("Personnel matters, including composition of the Secretariat"), he would invite the President of the Staff Council to make a statement.

7. **Mr. SPINA** (President of the UNIDO Staff Council) said that the new Director-General had managed to downsize the Secretariat by one third with no forced terminations. The Director-General deserved a vote of thanks for his success in implementing the wishes of

Member States in a way that caused the least harm to staff and the Organization. The Staff Council had already urged that a covenant should be signed between the staff, the administration and Member States. In the case of staff, such an agreement would call for the highest standards of efficiency, competence and integrity. The Organization, in turn, would undertake to provide the services prescribed in the Business Plan, at the highest standards, and would ensure equal treatment for everyone and equal conditions of employment for all. The role of Member States was to make decisions and give guidance as well as to provide the financial means to carry out the decisions and agree to allow the Organization to fulfil its mandate with minimal, ideally no, political interference. Member States had provided the Organization with a business plan which, as the Director-General had indicated, had been almost fully implemented. By delivering the services listed in the Plan, especially in the African region, Member States had made a contribution to sustainable industrial development. However, the aim of Member States should be to alleviate the plight of countries in need, not to obtain political favours from the present administration. That would only increase expenditures and undermine the ability of the Organization to meet its obligations. The programmatic review was not due to end until December 1998, and, as stated by the Managing Director, Field Operations and Administration Division, all new recruitment would be frozen until then. Yet according to the Director-General's bulletin UNIDO/DGB(O).83 there had recently been a number of "special" appointments. The Director-General had referred to some in his statement to the staff in December 1997. However, the "few" had grown to many. What was needed from Member States was guidance, not impositions.

8. If the Organization was to be revitalized, the expectations placed on it must be clearly spelt out. It was not enough to finalize terms of reference for organizational units; job descriptions must be prepared so that staff understood what was expected of them. The Staff Council had been advocating a "skills requirements inventory" for well over a year. At the same time, an inventory should be made of existing staff skills, in order to match them to requirements. Since there would probably be further staff separations, the Organization had a moral obligation to inform staff members in a timely manner of their shortcomings, together with the options open to them to redress the situation. The Staff Council hoped that avoidance of non-voluntary separations would continue, in an atmosphere of transparency and fair play.

9. The staff endorsed the emphasis in the Business Plan on strengthening UNIDO's field representation. Staff members selected to fill field posts should be of the highest moral standards and possess first-hand experience. That was an obligation on the Organization's part towards

countries which had agreed to host either a subregional or a country office. As for the staff members who were still classified as unassigned, according to bulletin UNIDO/DGB(O).83, the Director-General was urged to resolve the situation with the utmost urgency, as the staff members concerned were being subjected to intolerable stress.

10. Far too many UNIDO staff members were on fixed-term or short-term, rather than permanent, contracts. Contracts were presently being extended only to the end of 1998, except where two-year extensions had been granted because the services of the staff members concerned were not subject to programmatic review, or they had been newly appointed. However, the applications of some staff members for voluntary separation had been rejected on the ground that their services might still be required in the transformed UNIDO, and yet they were only being given extensions until the end of 1998. Staff morale was now at an all-time low, due to the prevailing sense of insecurity. Staff members with children in school were in a dilemma. The validity of laissez-passers was very short, resulting in difficulties for staff members who had to obtain visas in order to travel. It must be agreed between the Organization and its staff that all would be treated equally.

11. Recognizing that staff must be motivated in order to meet the requirements of the Business Plan, the Director-General had informed them that he would be undertaking a promotion review at both the Professional and General Service levels. Not everybody could be promoted; the Staff Council therefore supported the administration's view that a proper reclassification process should be undertaken, posts advertised and staff enabled to apply. Good performance could also be recognized through continued step increases despite the limitations of the salary scales imposed by the United Nations common system. Because of the major reform in the United Nations system, it might now be timely to review such common system issues.

12. In the view of the Staff Council, the proper forum for addressing staff/management issues was the Joint Advisory Committee, established under Staff Regulation 5.3. However, the Committee had not met since early January 1998.

13. The staff were paid to provide the services dictated in the Business Plan and accepted that that had to be done at the highest standards of efficiency, competence and integrity. However, the Staff Council insisted that staff be properly informed and expectations be clearly understood. Adequate training should be given where needed. There must also be a proper evaluation mechanism so that rules and regulations were adhered to.

14. In summary: First, Member States not only decided and guided, but also provided the Organization and its staff with the means to execute. The Director-General needed a positive signal that he could revert to normal extensions of contract. Second, the Organization translated those decisions into plans of action and ensured that available human resources were given every opportunity to be able to meet expectations. Equal treatment for all could only contribute to enhancing staff morale and help implement the Business Plan. Third, staff must take up the challenge and accept that some of their skills needed sharpening. Staff was paid to do a job. Speaking on behalf of UNIDO staff, the Staff Council assured Member States and the Administration that they took up their challenge. The Staff Council believed that that constituted a tripartite agreement which all could sign on a dotted line.

15. **The PRESIDENT** invited the Managing Director of the Field Operations and Administration Division to introduce item 8 ("Field representation").

16. **Mr. MOHANTY** (Managing Director, Field Operations and Administration Division) said that the two reports before the Board (IDB.19/11 and IDB.19/CRP.8) gave information on the implementation of the field representation programme in line with General Conference resolution GC.7/Res.11. The progress report by the Director-General (IDB.19/11) outlined developments in the first quarter of 1998, while document IDB.19/CRP.8 brought the situation up to date by describing specific action taken by the Director-General to implement the Business Plan and the programme and budgets for 1998-1999. Policy guidelines for restructuring field representation were provided in the Business Plan and in the report of the ad hoc open-ended working group. In the programme and budgets for 1998-1999, \$28.5 million had been allocated to field representation, including \$2.9 million from extrabudgetary resources. Seventy per cent of the total was earmarked for the field, and 30 per cent for Headquarters. The programme and budgets also dealt with the distribution of the 30 field offices to be set up. The question of the location of field offices, and the delegation of authority to the field, had been discussed in various forums, including the Board and other policy-making organs, over the past three to four years. After taking office, the Director-General had acted swiftly to implement the mandate given by Member States for decentralization and delegation of authority to the field. Those issues had been discussed at a global meeting of UNIDO Country Directors in January 1998, also attended by representatives of other agencies. In February 1998, the Director-General had issued a bulletin defining the responsibilities of UNIDO field representatives in the light of the new organizational structure of UNIDO. The Secretariat's proposals for UNIDO field representation had been formulated in April and circulated to all the

permanent missions to UNIDO located in Vienna, Geneva and Bonn. The Director-General was required by resolution GC.7/11 to develop and implement a final proposal for the location of field offices according to objective criteria. Those criteria were defined in the Secretariat report in both quantitative and qualitative terms. The quantitative criteria related to low per capita income; population; the level of industrialization; technical cooperation delivery. The qualitative criteria, applied in a regional context, related to: existing field office locations; the regional and subregional balance of offices; logistical factors, including the availability of infrastructures; the requirements of LDCs; budgetary allocations; host country's contributions and cost-sharing. The proposal to set up 30 country offices had been developed according to those criteria, and in consultation with Member States and regional groups, which had voiced general support for the proposal. Some Member States had asked for additional country offices, but none had objected to the suggested locations; indeed, 24 of the 30 were for existing locations. The final locations of the field offices were set out in the Director-General's administrative instruction issued on 14 May 1998. Five offices would be converted to regional offices in the next phase. A further series of administrative instructions had been issued on 14 May, defining the roles and responsibilities of the field officers and their delegated administrative and financial powers, some of which would be increased over time.

17. Owing to the severe financial and human resources constraints affecting UNIDO, the decentralization process would need additional funding from extrabudgetary resources, specifically host country contributions. Such contributions were also necessary to establish the value of the field services vis-à-vis the clients and make the staff accountable to the host countries. It was also desirable that more affluent developing countries should meet at least part of the costs of country offices so that resources could be allocated in support of other countries in greater need. Host country contributions had in the past taken various forms. A set of guidelines was needed, and it was proposed, in paragraph 12 of document IDB.19/CRP.8, that a formal agreement should be signed between UNIDO and the host country, providing for a contribution for a five-year period, although the actual payment would need to be made annually.

18. **Mrs. AGGREY-ORLEANS** (Ghana) endorsed the statement made on behalf of the African group on the question of field representation. She was gratified that the Director-General had been holding wide-ranging consultations with Member States and with other development partners on the draft proposal for country coverage and for the location of country and subregional field offices. She supported the proposal for field representation prepared by the Secretariat, which took due

account of the critical balance between the quantitative and qualitative criteria, and presented an equitable distribution of field and subregional offices among the various regions.

19. Bearing in mind that the main function of field offices was to promote and support technical cooperation in order to encourage national capacity-building for industrial development, it was important to pay due attention not only to the regions and countries in greater need, but also to the industrial potential of individual countries. Her delegation therefore welcomed the proposed increase in field offices in the African region from 10 to 12. In appointing field personnel, greater account should be taken of gender balance, in line with the trend throughout the United Nations system. To do so would mean recognizing the vital role of women in the informal and micro-sectors of most developing country economies.

20. Formal discussions should be undertaken with host countries on the question of their financial contribution to the local cost of field offices. However, Member States must demonstrate their commitment to UNIDO's decentralization efforts. The Government of Ghana remained committed to maintaining the UCD Office in Accra, to which it contributed \$20,000 a year. Finally, in view of the importance of extrabudgetary financial resources at the field level, she suggested that UCD offices should be strengthened in order to mobilize such resources, and to coordinate aid programmes with host Governments and other multilateral institutions for the development of the industrial sector.

21. Mr. BAN (Republic of Korea) said that his delegation supported the Director-General's proposal for implementing resolution GC.7/Res.11, believing that the location of the 30 country offices had been determined on the basis of qualitative as well as quantitative criteria. It hoped that the role and functions of the subregional offices could be identified more clearly to enable them to play a central role in overall regional activities. The mechanism for cost-sharing between the host country and UNIDO should also be defined more precisely and, at the time when country offices were established, priority should be given to those countries prepared to bear more local costs. The subregional offices should have a more important part to play since 30 field offices would not be enough to cover all the developing countries or countries with economies in transition. The regional bureaux should be requested to fill in any gaps occurring in the implementation of field representation activities, to monitor closely activities in the field and, when necessary, take remedial action promptly. Even after the staff redeployment process and the delegation of authority to the field had been completed, a minimum number of staff must remain at Headquarters.

22. Mr. HALPHEN-PEREZ (Panama) said that UNIDO should strengthen its presence in the field through the appropriate delegation of authority and a clear formulation of the functions and responsibilities of field offices. It should seize every opportunity to show bold and transparent leadership so as to strengthen its credibility, especially in the field.

23. He wished to refer to possible mechanisms for promoting transparency in the field offices of UNIDO Country Directors (UCDs) and in Investment Promotion Service offices in the field. He expressed appreciation for document IDB.19/CRP.1, which contained a list of Investment Promotion Service offices with details concerning their staffing. The information on other field offices was also useful. To discourage suspicions regarding conflicts of interest, his delegation wished to recommend that UNIDO introduce mechanisms, as in the World Bank and the International Finance Corporation to ensure greater transparency. One such mechanism was "financial disclosure" by those who worked for the Organization. It was not a matter of limiting the assets of a staff member or making the content of bank accounts public; perhaps the relevant information should be revealed only to the internal auditors. Consultations might be held with the World Bank to see how such a mechanism worked. The staff members' accounts might be regularly checked, and such monitoring could be continued for five years after they left the Organization. Only if some increases in bank balances could not be satisfactorily accounted for would a problem arise. Such a system should be applicable to all staff members of UNIDO with diplomatic privileges in Vienna, New York and Geneva. UNIDO should also require every staff member to list all family links with staff in the field where he or she was representing UNIDO. Such statements should indicate whether such relatives held official posts in the national Government and what such posts were, and they should be updated when necessary. All UCDs should be required to make such statements. He noted in that connection that UNIDO, like UNDP, did not usually allow a national to represent the Organization in his own country. Some United Nations organizations had successfully improved their credibility by creating an image of transparency. UNIDO must project such an image. The circumstances were favourable for this to be done and the opportunity should not be allowed to pass.

24. Universities in the field could have an important impact on industrial development projects and on sustainable industrial development.

25. He also wished to express his support for the idea that representatives of the countries of the Group of 77 and China should meet to exchange views on subjects such as geographical distribution in field representation and in the Secretariat.

26. **Mr. ZAIDE** (Observer for the Philippines) supported the statement made on behalf of the Group of 77. He welcomed the useful documentation submitted to the Board and stressed that it was not the efforts put into the Organization but the results achieved that would be measured by both donors and beneficiaries of UNIDO. His country believed that UNIDO's proving ground was to be found in field representation, in its ability to network and in the promotion of investment and industrialization. The UCD in Manila had one of the highest-yield programmes. His country had raised its contribution to the Office from \$25,000 to \$45,000 during the current year. It believed that the users of services should pay. It welcomed the fact that the role of the Office had now been expanded to cover the South Pacific region.

27. An excellent example of triangular cooperation, including North-South and South-South cooperation, had been introduced into UNIDO in previous years in a joint Philippines-Japan-Kyrgyzstan programme which had been instrumental in introducing market economy practice into an economy in transition. It was a programme that might usefully be copied in other parts of the world. On a related subject, he said that a large mercury abatement project which would have an impact on both living conditions and the environment in the mining region had just been signed in Manila. His country had learned that an extensive mercury pollution programme had been undertaken much earlier in the fishing village of Minamata in Japan and hoped to be able to be guided by the experience of that programme.

28. **Mr. ISMAILOV** (Observer for Azerbaijan), speaking on item 8, expressed the view that UNIDO should focus on such activities as it had been successfully implementing for several years. For example, the regional development dimension could usefully contribute to speeding up reform in many countries with regional projects, providing potential investors with development concepts and business and investment opportunities in local industry. In that context, he welcomed the adoption of the Business Plan and expressed appreciation for the efforts made by the Director-General and the Secretariat to decentralize UNIDO's activities and restructure its field representation.

29. The authorities of his country were now considering the proposal for UNIDO field representation. It seemed necessary to identify the main criteria on which decisions concerning the location of field offices should be based. One of them should be their location in the areas of UNIDO's current field of activities and also of its potential activities. His country was ready to take part in further discussions on the preparation of such criteria, taking into account the prompt delivery of quality service and cost-effectiveness. Given that only three per cent of resources for the current biennium were being allocated to

regional programme management in Europe and the newly independent States of the former Soviet Union (NIS), it might be useful to consider employing national focal points as one possible option for UNIDO field representation. The continuation of the dialogue on the effective decentralization of activities, the strengthening of field representation and the implementation of the related decisions would undoubtedly serve the Organization well in the years to come.

30. **Mr. OKON** (Nigeria) commended the Director-General on his achievements since taking office. Although great progress had been made, UNIDO's problems were not entirely solved especially since all the financial resources required for it to function correctly were not available. UNIDO still had financial problems and his delegation welcomed the efforts being made to identify ways of expediting the payment of arrears of assessed contributions by Member States.

31. While endorsing the Business Plan, Nigeria stressed that the development of industrial human resources was an essential factor in implementing UNIDO programmes in the developing countries, particularly in Africa. It recognized the role being played by UNIDO in implementing the Second Industrial Development Decade programme with the introduction of the Alliance for Africa's Industrialization in 1996.

32. The UNIDO field representation programme had assumed a central role in the pursuit of the objectives of the reformed Organization, which should be closer to the people and their industrial and environmental needs. There was a need for increased voluntary contributions to fund the programme and also for a clear definition of the roles of the field offices, Headquarters and the host countries in the programme.

33. Nigeria had laid a solid foundation for a private-sector-led industrialization process through its plan for the Strategic Management of Industrial Development. The first phase had been completed with UNIDO's assistance and the second was now under way. Nigeria considered the development of small and medium enterprises (SMEs) to be one of the best ways of accelerating the pace of industrial development and was now focusing on creating an enabling environment for such development. It had established an autonomous body known as the Small Industrial Development Agency entrusted with the task of coordinating and facilitating the development of the SME subsector at federal and state levels. A National Credit Guarantee Scheme had also been established to optimize access to loanable funds by SMEs.

34. Nigeria's industrial development programmes were human-centred and gender-conscious. One programme in place was the Family Economic Advancement

Programme, aimed at empowering global communities and the urban poor as well as promoting viable agro-allied and cottage industries.

35. In line with the concept "Vision 2010", the Government had established a committee to examine all aspects of the economy and society needing to be developed and strengthened in a coordinated form. A National Council had been set up to implement the recommendations of the committee and would monitor and coordinate intersectoral activities with the goal of achieving national self-reliance, economic growth, good governance and political stability. Nigeria would continue to support UNIDO and relied on its cooperation.

36. **Mr. CHEBELEU** (Romania), speaking on item 8, expressed the view that the change in the functional relationship between Headquarters and the field would enable UNIDO to respond more effectively to the requirements of developing countries and countries with economies in transition. Romania had carried out a successful programme of cooperation with UNIDO in the framework of a Joint UNIDO Committee but, following a recent decision of the Secretariat, joint programmes and committees were to be phased out. His Government had explored the possibility of making use of the existing accumulated experience and expertise of the Joint UNIDO-Romania Centre in Bucharest and had offered to host a UNIDO field office there for whose maintenance it would partially cover the costs. A joint funding mechanism might be identified to meet staff costs related to the operation of such an office and his delegation was ready to discuss details of that offer with the Secretariat. The office could also cover UNIDO activities in other Central and Eastern European countries in similar circumstances, thus lending a regional dimension to UNIDO activities in that part of Europe. His country trusted that its offer would be considered and supported by the Secretariat and Member States. It would do its best to provide appropriate support for the implementation of regional cooperation programmes and projects and to bring about an awareness of UNIDO's services at both national and regional levels.

37. **Mr. FIGUEROA** (Mexico) said that his delegation had studied the proposals concerning field representation with great interest. It endorsed the comments made by the representative of Chile on behalf of GRULAC, and especially the view that the Secretariat's proposal deserved further study. It would be useful to have details of the mandate, objectives and coverage of the field offices. Dialogue between the authorities of the host countries would also be useful.

38. **Mr. ZERELLI** (Tunisia) supported the statements made on behalf of the African Group and the Group of 77. In view of the vital role played by UNIDO in assisting the

industrial development of developing countries, his delegation wished to encourage it to pursue the current process of reform so as to adapt its functions, its orientation and its priorities to the realities of a changing world economic environment.

39. On agenda item 4 ("Annual report of the Director-General on the activities of the Organization in 1997"), he said that his delegation welcomed the new style of presentation of the Annual Report. The Secretariat was clearly seeking to increase transparency. His delegation also thanked the Secretariat for the steps taken to organize an Investment Promotion Forum in Tunisia in November 1998.

40. Regarding field representation (agenda item 8), his delegation had studied the report contained in document IDB.19/11 and requested the Director-General to continue to develop, in consultation with Member States, a proposal for country coverage and location of field offices based on the agreed objective criteria in accordance with the Business Plan and the work of the ad hoc working group on issues related to field representation.

41. **Mr. MAGARIÑOS** (Director-General) said that field representation was a very delicate issue and he was aware, from comments made by representatives of all regional groups, that a number of expectations were not being met. While it was agreed that UNIDO's presence in the field should be strengthened, and ideally it would be desirable to have UNIDO offices in all countries, it was equally necessary to take a realistic and fresh look at the constraints and, most importantly, at the tangible results to be achieved. An additional consideration to be borne in mind was the requirement, under the approved programme, that appropriate use should be made of the existing United Nations field structure when considering the opening of a new UNIDO office. That was why, at the first global UNIDO Country Director meeting, the United Nations Secretariat and other agencies had been asked to provide an outline of their field structure. While the Secretariat would continue its consultations with all Member States with an open mind, in order to hear their views and preferences with the aim of building a strong consensus, it would clearly be impossible to secure full agreement from so many Member States, including 130 developing countries, on where and how to locate 30 field offices. The General Conference had given him a clear mandate, which he intended to fulfil, to develop and implement a final proposal for country coverage and location of field offices. All energies should be directed towards ascertaining how UNIDO's new packages of products could be used to solve specific problems in the field and how UNIDO could best fulfil its mandate in the developing countries. Whether UNIDO field activities were in the hands of a UNIDO, United Nations or bilateral aid office or whether one or more offices were needed was

a secondary consideration. He did not wish to reopen the debate on a process that was already well in hand, but would point out that the proposal was a preliminary one and that no hasty decisions would be taken without all the views and facts being available.

42. Turning to personnel questions, he said that he appreciated the frankness of the statement made by the President of the Staff Council and gave his assurance that staff representatives would always be free to air their views. Among the matters raised that called for some comment, there was the question of the appointment of special advisers. There was no secrecy about their appointment. There were only three such advisers, who worked with him and had his complete trust. They performed very useful tasks, dealing as they did with three matters he considered to be particularly important—finance, the image of the Organization and relations with the United Nations system. They were all employed under fixed-term contracts specifying that there would be no further financial implications for the Organization once their contracts were terminated. On the subject of low staff morale, he had found it at a much lower ebb when taking office, when the very existence of UNIDO had been in the balance. He trusted that the substantive work being done to strengthen the Organization and improve its prospects would restore the staff's faith in UNIDO. Finally, he gave his assurance that there was no financial reason for limiting the extension of contracts to the end of 1998; the only reason was that contained in Administrative Instruction No. 8, namely his intention, as of 1 January 1999, to negotiate with the staff on the introduction of the new staff career development system.

MATTERS RELATED TO INTERGOVERNMENTAL, NON-GOVERNMENTAL, GOVERNMENTAL AND OTHER ORGANIZATIONS (IDB.19.4 and Add.1; IDB.19/CRP.1)

43. **Mr. MARUNO** (Managing Director, Investment Promotion and Institutional Capacity-Building Division), speaking on behalf of the Secretariats of UNCTAD and UNIDO, informed the Board of measures taken by the two secretariats to implement the memorandum of understanding signed on 26 March 1998. The memorandum was in accordance with both the relevant provisions in the Business Plan and the ongoing reform process in the United Nations. It constituted a milestone in cooperation arrangements between specialized agencies and United Nations bodies. Its main objective was to build synergies and complementarities so as to enhance the effectiveness of the joint efforts of the two organizations in promoting investment in the developing countries. It aimed at the full utilization of the comparative advantages and capacities of each organization so as to maximize the delivery of services and avoid duplication. With regard to "upstream" and "downstream" activities, every effort

would be made to optimize the complementarities of both organizations. The memorandum also aimed at the optimum utilization of the organizations' available financial, staff and other resources, at the development of new cooperative arrangements with the private sector and at ensuring the positive impact of their involvement in other activities at the national, subregional, regional and global levels.

44. The following steps had been taken by the two organizations towards putting the memorandum into operation: consultations between the focal points of the two organizations in providing policy guidance; identification of concrete projects in the area of investment and technology promotion at the national level and areas of cooperation in their implementation; and preparation of frameworks of cooperation in the areas of enterprise development, quality, standardization and global control.

45. Communications and consultations among the staff of both organizations had been characterized by a willingness to share information and to cooperate in providing services and carrying out joint activities in the developing countries. A progress report on the implementation of the memorandum of understanding was available. The memorandum between UNIDO and UNCTAD constituted a concrete example of a "win-win" situation for recipient and donor countries alike as it paved the way for more effective delivery of services by both organizations.

46. **Mr. ZULU** (International Monetary Fund (IMF)), referring to the experience of IMF in South-East Asia, said that, to the question whether there had been any early warning of the crisis in South-East Asia, the answer was both yes and no. There had been unequivocal macroeconomic danger signs, and there had also been warnings about weak financial systems. That being said, IMF had been taken by surprise, for various reasons. Economic and financial integration and globalization did not respect Governments, multilateral institutions or indeed parliaments, and it took time for the centres of traditional power to detect growing erosion of that power. Moreover, the intensity of a globalization or integration of financial markets had been stronger than perceived. The role of private market players, banks and investors had been underestimated both by Governments and by multilateral institutions. The private sector players had been mostly unaware of the weaknesses in governance in the countries to which they had been investing. Creditor countries had been unaware how exposed their banks, financial institutions or investors were in South-East Asia or indeed elsewhere, and creditor foreign banks had been unaware how many of them were involved in business in each country and what the extent of their financial exposure was.

47. The role of IMF in the framework of its mandate at the domestic level, but also as the centrepiece of international cooperation, involved risk, but risk was viewed as a short-term price to pay in order to speed up the restoration of normal relations between markets and sovereign economies, and between borrowers, lenders and investors. Such onerous responsibilities were unavoidable if IMF was to fulfil its mandate. There was a responsibility to restore market confidence, macroeconomic stability and the health and buoyancy of the functioning of the international monetary financial system, and to minimize economic and social disruption. Prompt action was necessary. Letting the market take its course was not viewed as a credible alternative. Market exuberance was often part of the problem and markets should not be expected to resolve the crisis alone. Governments had directed banks to borrow from overseas and to lend to designated enterprises or economic sectors. Foreign investors had incurred huge losses as a result of the fall in the value of equity shares of corporate businesses in distress and in turn foreign and domestic banks had incurred losses when the corporate domestic borrowers had failed to repay their loans. IMF had played a historic role by persuading many foreign banks to agree to reschedule short-term debts, and in doing so had locked in important creditors who would have otherwise been ready to flee. Given that analysis, it was a moot point whether the fears of moral hazard could stand up to real scrutiny and analysis, making the meltdown theory a rather blunt economic instrument to apply in a complex socio-economic crisis such as that in South-East Asia. Further points now to be considered were the structure of adjustment programmes in South-East Asia and the challenges of managing and minimizing the market crisis.

TIMELY PAYMENT OF ASSESSED CONTRIBUTIONS (IDB.19/12 and Corr.1, IDB.19/13, IDB.19/14; IDB.19/CRP.3)

48. **Mr. BENMOUSSA** (Morocco), speaking as chairman of the open-ended discussion group on timely payment of assessed contributions, introduced the report of the group (IDB.19/12 and Corr.1). The group had held seven meetings altogether, with valuable assistance from the Director-General and the Secretariat. By way of preliminary comment, he said that, despite encouraging progress made in the payment of assessed contributions in recent months, which meant that the threat of insolvency had receded, an amount of some \$122 million was still outstanding, of which about half was due by the United States. Non-payment meant that 72 Member States out of 168, or about one half of the membership, had lost their right to vote—a very worrying situation which called for urgent action. Against that background, the role of the Permanent Missions in Vienna and of the regional groups in urging Member States to pay their contributions and arrears was very important. Another useful step would be

to publish the recommendations contained in the group's report and send them both to Member States represented in the Board and to Permanent Missions in capitals other than Vienna. The group also recommended discussions with UNDP to determine its readiness to cooperate regularly with UNIDO on the matter of payment by LDCs in local currency to local UNDP offices, which could then transfer those payments to UNIDO in United States dollars, and regarding the establishment of payment plans for arrears, with a similar mechanism.

49. Various outstanding points could not be settled by the group and warranted discussion by the Board. One was the communication strategy to be implemented by the Director-General to make non-governmental organizations and industrial groups in the United States aware of UNIDO reforms and new trends that would mark the Organization's policy towards developing countries and countries in transition. Another concerned the establishment of a contact group with the United States authorities. It was well known that the executive of the United States was willing to pay the arrears due, subject to a decision by the United States Congress. A contact group, working permanently with the United States Mission in Vienna, would be an important means of securing payment of the arrears.

50. Future evaluation would be needed to ascertain whether the recommendations had the effect of encouraging Member States to pay their contributions and arrears and maintain their voting rights. Timely payment of assessed contributions and the restoration of voting rights were critical for the preservation of legality within the Organization and its universality and efficiency.

51. **Mr. BAN** (Republic of Korea) expressed support for the idea that LDCs should be able to pay their arrears in local currency under a payment plan. Regarding the establishment of an effective mechanism to encourage timely payment of assessed contributions, his delegation was in favour of a balanced approach and thought that more time would be needed to reach a consensus on measures that were of a relatively sensitive nature. Some measures that had already been adopted in other organizations could be considered, and some of the suggested measures might be approved at the current Board session. A gradual approach was recommended, taking account of the fact that many organizations in the United Nations system were experiencing similar problems. His Government had paid almost the entire amount of its assessed contribution for 1998 at the beginning of May, with the remainder to be paid as soon as possible.

52. **Mr. BRODSKY** (Ukraine) expressed support in principle for the proposed means of solving the problem of the arrears of developing countries and countries in

transition through payment plans, as set out in the report. It was a flexible mechanism which took account of the financial rules of the Organization and of each State's capacity to pay. The rescheduling of Ukraine's arrears over a period of five years, with the possibility of restoring its right to vote once payments had commenced under the plan, would be a way out of the current deadlock. The non-payment by Ukraine of its assessed contributions and consequent loss of voting rights had arisen not out of Ukraine's unwillingness to meet its financial obligations, but as a result of earlier unjust decisions by the United Nations concerning its assessed rate of contribution, which had been unjustifiably high and had exceeded its capacity to pay. Furthermore, the difficult economic situation in Ukraine had made it impossible to transfer funds from the budget to absorb existing arrears. Ukraine's accumulated arrears and loss of the right to vote and to appoint representatives to the policy-making organs, and even its loss of representation in the Secretariat, had thus been due to circumstances beyond its control. Ukraine viewed the group's recommendations in a spirit of cooperation and willingness to

talk openly about its financial difficulties and hoped that the proposals for a solution to the problem would not only be useful to Ukraine but would improve the financial situation of the Organization as a whole.

53. **Mr. FIGUEROA** (Mexico) said that the group's discussions, in which the representatives of GRULAC had actively participated, had been very useful in identifying alternatives for solving the payment problem so as to ensure that the Organization could continue to fulfil its mandate in providing support for the least developed countries. He reiterated his endorsement of the incentive schemes and of continuing dialogue between the Director-General and countries in arrears. Mexico intended to meet all its financial obligations on the basis of a payment schedule involving monthly payments between May and October 1998.

54. **Ms. OK** (Turkey) said that the problem tackled by the discussion group, which had entailed the loss of voting rights by one half of UNIDO's Member States, was a very serious one. She hoped that the measures proposed by the group would be adopted by consensus.

The meeting rose at 12.40 p.m.